



DEPARTMENT OF THE NAVY
OFFICE OF THE SECRETARY
1000 NAVY PENTAGON
WASHINGTON, DC 20350-1000

SECNAVINST 5200.34E
NAVINGEN-00
7 Nov 2005

SECNAV INSTRUCTION 5200.34E

From: Secretary of the Navy

Subj: MANAGEMENT OF AUDIT DECISION AND FOLLOW-UP FUNCTIONS

Ref: (a) DoD Directive 7650.3 of 3 Jun 04
(b) SECNAVINST 5430.7N
(c) NAVAUDSVC Local Audit Manual of Jul 03

Encl: (1) Semiannual Follow-up Status Report
(2) Audit Decision Procedures
(3) Audit Follow-up Procedures
(4) Definitions

1. Purpose

a. To implement reference (a), assign responsibility, and provide guidance on audit decision and follow-up on the findings and recommendations of audit reports published by audit organizations (AOs) within the Department of the Navy (DON).

b. To specify DON policy on the elimination of fraud, waste, abuse, and mismanagement (FWA&M) identified by AOs.

c. This instruction has been substantially revised and should be reviewed in its entirety.

2. Cancellation. SECNAVINST 5200.34D.

3. Applicability

a. This instruction applies to all DON activities, commands and offices.

b. Audit follow-up requirements for the Government Accountability Office (GAO) and the Department of Defense, Inspector General (DoDIG) audit reports are contained in SECNAVINST 5740.30. DoD Directive 7640.2 with change 1 of August 16, 2005 and the Navy Acquisition Procedures Supplement 15-874 contain audit follow-up policies for the Defense Contract Audit Agency (DCAA) audits.

c. Commanding Officers of ships, aircraft squadrons, and Immediate Unit Commanders of DON Operating Forces are exempt only from the reporting requirements established by enclosure (1).

d. Enclosures (2) and (3) delineate specific audit decision and audit follow-up procedures, respectively.

4. Definitions. Enclosure (4) defines terms used in this instruction.

5. Policy

a. Audit follow-up is an integral part of good management and is a shared responsibility between DON managers and auditors.

b. The pursuit of integrity and efficiency and the elimination of FWA&M is a major DON objective. DON management will take action to correct and prevent recurrence of such deficiencies identified in AOs' reports.

c. DON management will review AOs' findings for wasteful practices and promptly implement action to correct such practices, even though the action may not be specifically recommended by the AO.

d. The commanding officer or director of an audited activity will take prompt, corrective action on agreed-upon audit recommendations. Corrective action will normally be completed within one year of the audit report's publication. When DON management does not concur with the auditor's monetary benefit estimate, the DON management response must be in writing and provide the basis for the non-concurrence including legal basis, if any.

e. The process for deciding disputed audit findings, recommendations, and auditor's monetary benefit estimates will be well documented and will normally be completed within six months of the audit report's publication. The DON management final decision will be a matter of written record and include written justification containing, when applicable, the legal basis for decisions not agreeing with the audit recommendation.

f. Follow-up systems will provide a complete record of action taken on audit findings, recommendations, and associated monetary benefits.

6. Responsibilities

a. Audit Decision and Follow-up Policy and Oversight. Per references (a) and (b), the Under Secretary of the Navy (UNSECNAV) is the DON official responsible for overseeing the DON Audit Follow-up Program, including the resolution of disputed findings.

(1) UNSECNAV will resolve undecided issues pertaining to disagreements over Naval Audit Service (NAVAUDSVC) findings, recommendations, and estimates of monetary benefits within the 6-month decision period;

(2) UNSECNAV will monitor completion of corrective actions taken on agreed-upon and decided audit findings and recommendations; and

(3) UNSECNAV will submit the DON Semiannual Follow-up Status Report to DoDIG per reference (a) and enclosure (1).

b. The decision authority for local and Non-Appropriated Fund Instrumentality (NAFI) audits is the commanding officer of the AO performing the audit. Decision authorities will ensure the process for deciding disputed audit findings, recommendations, and estimates of monetary benefits is well documented. The decision authority's decision will be in writing and consistent with statutes, directives, regulations, and DON policy.

c. Audit Follow-up Execution. Prompt, responsive, and constructive corrective action will be taken on agreed-upon and decided audit recommendations. DON focal points will be established at Chief of Naval Operations (CNO), Commandant of the Marine Corps (CMC), and Chief of Naval Research (CNR). CNO and CMC will designate appropriate Echelon 2 commands requiring focal points. The following offices and personnel are responsible for follow-up for the audits identified below:

(1) Naval Inspector General (NAVINSGEN), DON focal points, and NAVAUDSVC for NAVAUDSVC audits;

(2) Commander, Naval Supply Systems Command (COMNAVSUPSYSCOM) for NAFI audit follow-up for Navy lodges and exchanges;

(3) CMC (Code RFR) for Marine Corps NAFI audit follow-up;

(4) Commander, Navy Installations (CNI) for NAFI audit follow-up for fiscal oversight and management reviews to include Navy Morale, Welfare, and Recreation;

3

(5) Commanding officers for local audits; and

(6) NAVINSGEN is also responsible for oversight of the above areas. NAVINSGEN will exercise oversight via:

(a) Periodic reviews;

(b) Review of correspondence; and

(c) DON inspections.

7. Action

a. DON management will:

(1) Promptly respond, in writing, to all audits explicitly concurring or nonconcurring with each finding, recommendation, and potential monetary benefit;

(2) Ensure corrective action is taken on agreed-upon and decided DON internal AOs' audit findings and recommendations;

(3) Maintain a complete record of action taken on audit findings, recommendations, and associated monetary benefits; and

(4) Make pertinent records available for examination by NAVINSGEN and auditors.

b. Secretariat, CNO, CMC will:

(1) Implement the policies and procedures specified in this instruction and, as necessary, provide further guidance or direction to subordinate commanders;

(2) Ensure DON management takes prompt and adequate corrective action and incorporates any savings into the DON budget; and

(3) Ensure that civilian performance appraisals and officer fitness reports of appropriate officials reflect effectiveness in deciding, implementing, and following up of audit recommendations.

c. Commands with audit follow-up execution responsibility will prepare applicable parts of the DON Semiannual Follow-up Status Report, enclosure (1), for the 6-month period ending 31 March and 30 September. Forward the report one week after the close of each 6-month period to:

Naval Inspector General
1254 Ninth Street, SE, Bldg 172
Washington Navy Yard, DC 20374-5006

8. Report. The reporting requirement cited in paragraph 7c is exempt from reports control by SECNAVINST 5214.2B.

Dionel M. Aviles
Under Secretary of the Navy

Distribution:
Electronic only, via Navy Directives Website
<http://neds.daps.dla.mil/>

SEMIANNUAL FOLLOW-UP STATUS REPORT

1. General

a. Semiannual Follow-up Status Reports will be submitted to document the status of actions taken to correct audit reported deficiencies. NAVAUDSVC and designated focal points in headquarters' commands will collect and submit such information.

b. A sample Semiannual Follow-up Status Report is attached as Exhibit A to this enclosure. It will be used to indicate the status of actions on NAVAUDSVC audit recommendations.

c. DON management must agree in writing to the realized monetary benefits reported as closed to NAVAUDSVC. If such an agreement has not been obtained for any portion of the open monetary benefits associated with a recommendation for which action is otherwise complete, these documented benefits must either be deleted from the Semiannual Follow-up Status Report, or continue to be reported as open. The related finding, recommendation and report will remain open in the NAVAUDSVC follow-up tracking system until the realized monetary benefits have been determined.

d. NAVAUDSVC monetary benefits reported as open in Part IV of the Semiannual Follow-up Status Report must be supported by written concurrence from DON management. Amounts not concurred in, i.e., undecided amounts, should be excluded from Part IV, but included in Part II of the report.

2. Preparation

a. Summary. NAVAUDSVC will provide summary information on NAVAUDSVC audits. NAVAUDSVC will provide status on all audits and recommendations that were open, closed or undecided during the 6-month reporting period. NAVAUDSVC will include a listing of, and documentation supporting, all audits and recommendations with monetary benefits concurred in by DON management and closed by NAVAUDSVC during the 6-month reporting period.

b. Part I. Applicable headquarters command focal points and NAVAUDSVC will prepare Part I, Sections (1) through (3) of the Semiannual Follow-up Status Report. Part I is a narrative summary:

(1) Assessing the overall status of follow-up efforts performed during the period;

Enclosure (1)

(2) Explaining what measures have been taken to verify agreed-upon corrective actions have been taken, either through

on-site review or other measures, and to ensure deficiencies in corrective actions are being identified; and

(3) Discussing any systemic follow-up weakness revealed during the period and explaining what is being done to correct those problems.

(4) NAVAUDSVC will provide a listing of all its audit reports over 18 months old from date of issue identifying which final action has not been completed indicating each such report's number, title, date of issue, agreed-upon monetary benefits not yet achieved and an explanation for the reasons final action has not been taken.

c. Part II. Part II of the Semiannual Follow-up Status Report is a statistical summary of the status of management decisions on all NAVAUDSVC audit reports, to include decisions on quantifiable monetary benefit estimates claimed by the auditors. (NAVAUDSVC only)

d. Part III. Part III of the Semiannual Follow-up Status Report is a summary status of all NAVAUDSVC audit reports issued before the reporting period for which no management decision has been made by the end of the reporting period. (NAVAUDSVC only)

e. Part IV. Part IV of the Semiannual Follow-up Status Report is a statistical summary of the status of management action on all NAVAUDSVC audit reports, to include status of quantifiable monetary benefit estimates agreed-upon by management. (NAVAUDSVC only)

f. Filing Date. Information will be provided to NAVINSGEN one week after the close of each semiannual reporting period ending 31 March and 30 September.

g. Definitions. Explanations for information required in either Parts I, II, III, and IV are as follows:

(1) Reporting Activity. Identify the name of the DON component submitting the report.

(2) For Period Ending. Enter the last 2 digits of the calendar year, two digits for the current month, and two digits for the day the reporting period ends, i.e., the last two digits

(3) Date of Transmittal. Enter the last two digits of the calendar year, two digits for the current month, and two digits for the day the report actually is forwarded to the DoDIG (e.g., 050414).

(4) Point of Contact, Telephone Number and E-mail Address. Identify the name, telephone number, and e-mail address of the responsible official submitting the report. Enter last name, first name, middle initial, and e-mail address (in that sequence).

(5) Monetary Benefits. Report all dollar amounts in thousands.

3. Consolidation. NAVINSGEN will consolidate and submit the DON Semiannual Follow-up Status Report to UNSECNAV.

4. Submission. UNSECNAV will submit the DON Semiannual Follow-up Status Report to DoDIG.

7 Nov 2005

PART I
NARRATIVE SUMMARY

- (1) Provide an assessment of the overall status of follow-up efforts performed during the period.
- (2) Provide an explanation of measures taken to verify agreed-upon corrective actions have been taken, either through on-site review or other measures, and to ensure deficiencies in corrective actions are identified.
- (3) Provide a discussion of any systemic follow-up weaknesses revealed during the period together with an explanation of what is being done to correct those problems.

7 Nov 2005

PART II
STATUS OF MANAGEMENT DECISIONS ON CENTRALLY-DIRECTED REPORTS

Undecided-Beginning of Period <u>Number</u> <u>Monetary Benefits1/</u>	Issued During Period <u>Number</u> <u>Monetary Benefits1/</u>	Decided During Period <u>Number</u> <u>Monetary Benefits</u> <u>Monetary Benefits</u> <u>Agreed2/</u> <u>Disagreed3/</u>	Undecided-End of Period <u>Number</u> <u>Monetary Benefits1/</u>
Reports _____	_____	_____	_____

Notes:

1. Use quantifiable monetary benefit estimates claimed by auditors.
2. Use quantifiable monetary benefit estimates specifically agreed-upon by DON management.
3. Difference between monetary benefit estimates claimed by auditors and those specifically agreed-upon by DON management for reports decided.

7 Nov 2005

PART IIICENTRALLY-DIRECTED REPORTS ISSUED PRIOR TO THE REPORTING PERIOD WHICH REMAIN UNDECIDED

<u>Report Number, Title and Report Date</u>	<u>Explanation of the Reasons a DON Management Decision Has Not Been Made</u>	<u>Quantifiable Monetary Benefits Estimated by the Auditors</u>	<u>Timetable for Achieving Management Decision</u>
---	---	---	--

7 Nov 2005

PART IV
STATUS OF MANAGEMENT ACTION ON CENTRALLY-DIRECTED REPORTS

Action in Progress Beginning of Period <u>Number</u> <u>Monetary Benefits1/</u>	Decided During Period <u>Number</u> <u>Monetary Benefits1/</u>	Action Completed-During Period <u>Number</u> <u>Monetary Benefits2/</u>	Action in Progress End of Period <u>Number</u> <u>Monetary Benefits1/</u>
Reports _____	_____	_____	_____
Recommendations _____	_____	_____	_____

Notes:

1. Use quantifiable monetary benefits specifically agreed-upon by DON management.
2. Monetary benefits will be reported as completed (achieved) only after cognizant managers have completed the related corrective actions and have furnished confirmation, including documentation such as references to official budget or accounting data or, if such documentation is not feasible, an updated estimate and the rationale for that estimate.

AUDIT DECISION PROCEDURES

1. General

a. DON management will analyze AOs' findings and recommendations and provide written responses that are both prompt and constructive. All DON management responses and actions will comply with existing statutes, directives, regulations, and policy.

b. Responses to audit reports are written comments by command officials indicating agreement or disagreement on reported audit findings and recommendations. Comments indicating agreement on final reports shall include planned corrective actions and dates for achieving actions. Comments indicating disagreement shall explain fully the reasons for the disagreement. Where disagreement is based on interpretation of law, regulation, or the authority of officials to take or not take action, the response must include the legal basis.

c. When DON management agrees with an AO's recommendation, corrective action will be initiated promptly and continued to completion within established time frames. Disagreement as to facts, conclusions, claimed monetary benefits, or recommendations should be decided at the lowest level possible.

2. Undecided Issues. Issues contained in audit reports not decided at the audited activity level will be promptly forwarded via the appropriate chain of command until a decision is attained. At each level, any disagreements with the audit report's findings, recommendations, or monetary benefits will be documented in writing and provided to the AO. Where disagreement is based on interpretation of law, regulation, or the authority of officials to take or not to take action, the response must include the legal basis. When an issue remains undecided at the Echelon One level, the AO will elevate it to UNSECNAV via NAVINSGEN.

3. Monitoring and Facilitating the Decision Process. Focal points will monitor undecided issues in published DON audit reports to ensure DON management responses are timely and provided to the AO for forwarding to the decision authority in sufficient time for the audit decision authority to adjudicate the issue within the 6-month decision period.

a. NAVAUDSVC undecided issues at CNO, CMC, CNR, or DON Secretariat level will be referred to UNSECNAV via NAVINSGEN for adjudication. For those undecided issues addressed to UNSECNAV, NAVINSGEN will act as audit facilitator.

(1) To ensure disputed or undecided NAVAUDSVC issues are decided within the 6-month time frame, NAVINSGEN will, if the issue remains undecided 60 days after audit publication, initiate formal audit adjudication correspondence.

(2) When monetary benefits are disputed and corrective action has not been completed, written decision memoranda will provide the status for both the disputed monetary benefits and the corrective action. Decision agreements along with other recommendations of the report are subject to follow-up procedures.

(3) All undecided NAVAUDSVC issues not completed within the 6-month time period will be reported on Exhibit A to enclosure (1), Part III.

b. For local and NAFI audits, commanding officers will publish detailed regulations for audit decision of their internal audits, i.e., audits of and by personnel within their command. Such regulations will comply with the policies of this instruction and with references (a) and (c).

c. Audit decision authorities will adjudicate any undecided issues within the 6-month decision period, i.e., within six months of the date of the final audit report or, if by non-federal auditors, of the receipt of the audit report. The decision authority's decision will be a matter of written record, consistent with statutes, directives, regulations, and DON policy, and include, when applicable, the legal basis for a decision not agreeing with the audit recommendation.

4. Follow-up. Once a decision is attained, the audited activity is responsible for audit follow-up monitoring, status reporting, and implementation per enclosure (3).

AUDIT FOLLOW-UP PROCEDURES

1. General

a. NAVINSGEN is accountable to UNSECNAV for the overall execution of the DON Audit Follow-up Program.

b. NAVINSGEN may delegate selected oversight, follow-up management and reporting responsibilities, except those audit decision procedures pertaining to NAVAUDSVC, to cognizant DON offices. The cognizant DON office will issue detailed departmental implementing guidance for audit decision and follow-up pursuant to the policies of this instruction and references (a) and (c).

c. NAVINSGEN will maintain information on NAVAUDSVC findings and recommendations and initiate audit follow-up and monitor compliance DON-wide with audit follow-up requirements. This includes recommending selective on-site verification efforts to help determine whether corrective actions taken by DON managers were complete and timely, whether savings were achieved, whether collections or recoveries were made, and whether these actions corrected the problems reported by the auditors.

d. NAVINSGEN will review instances of non-compliance with these audit follow-up procedures reported by AOs and take prompt measures to ensure corrective actions are carried out.

e. NAVINSGEN will review on a selective basis, the adequacy of corrective actions on NAVAUDSVC audit report findings and recommendations, directing or initiating follow-up action as required.

f. NAVINSGEN will consolidate and submit the DON Semiannual Follow-up Status Report for submission to DoDIG through UNSECNAV.

2. DON Focal Points. DON focal points, including other designated subordinate commands, will:

a. Facilitate. Serve as the headquarters point of contact to receive AOs' reports pertaining to their command, distribute reports to cognizant staff offices or subordinate commands for comment and action, ensure adequacy and timeliness of responses to audit findings, recommendations and monetary benefits and ensure timeliness of the decision process.

Enclosure (3)

b. Oversee. Follow-up on subordinates within their chain of command to ensure:

(1) Comments are provided to AOs regarding concurrence or non-concurrence, with rationale, on each finding, recommendation and potential monetary benefit (i.e., draft audit, final audit report and prior to and upon closure of a recommendation with monetary benefits, DON management must explicitly cite monetary benefits which have been or may be realized);

(2) Undecided issues are promptly acted upon within headquarters or referred up the chain of command for decision;

(3) Corrective action is taken on open and decided audit findings and recommendations; and

(4) Status reports are submitted to AOs and NAVINSGEN;

c. Verify. Verify DON management has acted on all significant recommendations within one year of closure on-site, regardless of when the recommendations were closed for follow-up tracking purposes. Recommendations are exempt from on-site verification only if they do not meet any of the significant categories mentioned below, or if the audit report contains verbiage explicitly stating the auditors have verified DON management's actions. A recommendation is deemed significant when it fits at least one of the following categories. Specifically, the recommendation identifies:

(1) monetary benefits of \$350 thousand or more for an Echelon One or Two command and \$100 thousand or more for an Echelon Three and below command;

(2) a major systemic problem (e.g., military pay or compensation issues);

(3) a safety problem (e.g., reviewing base operations for security measures);

(4) a health problem (e.g., chemical/biological warfare reviews); or

(5) a repeat finding (e.g., the same condition and cause noted in a previous audit).

Enclosure (3)

d. On-site Verification Report. Semiannually, provide NAVINSGEN on-site verification plans, plan updates and verification results by 31 January and 31 July. Additionally, to facilitate on-site verification efforts by audit, inspection, or other oversight organizations, commands will ensure that follow-up data is readily available.

e. Document. Maintain fully documented formal records of all audit reports within their chain of command to include:

(1) DON management analysis and written position on each finding, recommendation, potential monetary benefit and overall report;

(2) Command or activity responsible for implementing agreed-upon corrective action;

(3) DON management's planned actions with time schedules for completion. When corrective actions are to be taken over a period in excess of one year, DON management will prepare a Plan of Action and Milestones (POA&M) for completing major segments of the plan. DON management will provide POA&Ms to NAVAUDSVC, with a copy to NAVINSGEN;

(4) Semiannual reports on the status of agreed-upon and decided open corrective actions. Current status of open corrective actions will be determined and documented in follow-up files semiannually for all reports exceeding one year from date of issue. Exhibit A to this enclosure provides the format for reporting corrective action status. Provide information to NAVAUDSVC, copy to NAVINSGEN, 45 days before the reporting periods ending 31 March and 30 September; and

(5) A record of when final action has occurred. Audit reports will be recorded as closed in follow-up records only after cognizant managers have furnished written confirmation that all corrective actions have been completed, or on-site verification has so indicated and such documentation is contained in follow-up files. Monetary benefits will be recorded in follow-up systems as having been achieved only after cognizant managers have completed the related corrective actions and have furnished written confirmation, including documentation such as references to official budget or accounting data, or if such documentation is not feasible, an updated estimate and the rationale for that estimate.

Enclosure (3)

f. Database. Maintain a manual or automated database showing current status of all recommendations under the purview of the focal point. Reconcile command database with NAVAUDSVC database monthly. Identify any discrepancies to the attention of NAVAUDSVC.

g. Monetary Collection. Continue follow-up action to ensure adequate collection effort is made by the command or activity when management concurs with auditors that Government resources should be recovered.

h. Semiannual Follow-up Status Report. Provide NAVINSGEN feeder reports for the DON Semiannual Follow-up Status Reports per enclosure (1).

3. Internal AOs. DON internal AOs will:

a. Review and evaluate DON management follow-up status reports to determine whether corrective actions taken or planned are adequate, timely, and responsive. Assist follow-up focal points in assessing responsiveness of actions taken by DON management regarding the recommendations that were agreed-upon or decided;

b. Verify corrective actions when a subsequent audit is performed. If a special audit is needed, NAVINSGEN may request an AO to perform such an audit;

c. Report instances of noncompliance with agreed external AO audit recommendations to the command for action and provide a copy of the report to NAVINSGEN;

d. Obtain DON management written documentation demonstrating that an actual or agreed-upon estimate of realized monetary benefit amount has been determined before reporting such monetary benefits as closed in the follow-up system (NAVAUDSVC only); and

e. Commanding officers with local audit staffs are responsible for follow-up on audits they perform and audits performed under contract to audit their activities. The NAVAUDSVC has oversight responsibility for local audits. Commanding officers will:

Enclosure (3)

(1) Ensure open audit findings and recommendations are tracked or monitored until action is completed;

(2) Follow-up on open and undecided audit recommendations at regular intervals to ensure accomplishment or decision within required time frames;

(3) For oversight purposes, provide statistical data on local audit activities to the NAVAUDSVC within two weeks after the close of each 6-month reporting period ending 31 March and 30 September. The data includes number of reports, status of each finding and recommendation, including potential monetary benefits, and number of personnel; and

(4) Comply with any additional reporting requirements of NAVAUDSVC Local Audit Manual, reference (c).

4. Audit Follow-up Databases

a. Databases. Manual or automated audit follow-up audit databases showing the current status of DON internal audit findings, recommendations, and estimates of monetary benefits will be maintained by:

(1) NAVAUDSVC for NAVAUDSVC audit reports;

(2) NAVINSGEN for NAVAUDSVC audit reports; and

(3) DON focal points for NAVAUDSVC and other applicable DON internal audit reports.

b. Updates. DON focal points charged with responding to NAVAUDSVC audits are responsible for providing status reports to the NAVAUDSVC to update the NAVAUDSVC audit follow-up database.

c. Classification. Audit follow-up databases will classify recommendations as open, closed, or undecided and monetary benefits as claimed, agreed, indeterminable, or non-concurred.

d. Consolidation

(1) Focal points will maintain formal records of audit reports detailing the action taken on audit findings, recommendations, and agreed-upon monetary benefits. Focal points will ensure the following information is provided to

Enclosure (3)

NAVAUDSVC, copy to NAVINSGEN, within 30 days after the final NAVAUDSVC report is published or the action described below:

(a) The date action was completed on a recommendation and monetary benefits;

(b) A revised target date for recommended action when the original target date provided during the draft audit process cannot be met. The burden for justifying the need to obtain a revised target date will be on the initiating command or DON component, which must demonstrate the need for NAVAUDSVC to revise the target date and provide supporting documentation;

(c) A modification of previously agreed-upon action, with sufficient detail to enable NAVAUDSVC to determine if the recommendation can be closed;

(d) A reversal of a previous agreement to take action with a response that clearly states the reason for the change; and

(e) A final determination of any potential monetary benefits previously undetermined in the draft audit process.

(2) NAVAUDSVC will enter the information from DON focal points into the NAVAUDSVC audit follow-up database.

(3) Monthly, NAVAUDSVC will provide DON focal points and their designated Echelon Two focal points information from the NAVAUDSVC audit follow-up database listing recommendations as open, closed, undecided, or overdue (30 days or more).

(4) DON focal points will reconcile these data sheets with the command audit follow-up database and notify the NAVAUDSVC of any discrepancy.

(5) NAVAUDSVC will provide NAVINSGEN data for the DON Semiannual Follow-up Status Report in accordance with enclosure (1).

5. Specific Follow-up Procedures for NAFI and Military Exchange Audits. Under the CNO, the Navy Exchange Service Command (NEXCOM) is responsible for follow-up on its findings and recommendations. COMNAVSUPSYSCOM will monitor follow-up on exchange audits conducted by NEXCOM. CMC will follow-up on NAFI and exchange audits conducted by the Marine Corps Non-appropriated Fund Audit Service (MCNAFAS).

SECNAVINST 5200.34E

7 Nov 2005

Enclosure (3)

7 Nov 2005

Reporting Activity: _____ For Period Ending: _____ (YYMMDD)
_____ Transmittal Date: _____ (YYMMDD)
_____ Point of Contact: _____
Telephone #: _____

OPEN CORRECTIVE ACTION STATUS REPORT

Audit Report <u>Number</u>	<u>Title</u>	Date of <u>Issue</u>	(\$000) Agreed Upon Monetary Benefits <u>Not Yet Achieved</u>	Reason Action Not <u>Completed</u>
----------------------------------	--------------	-------------------------	--	--

Reason Action Not Completed Codes

- 1 - Long-term corrective action on schedule
- 2 - Management action slipped significantly
- 3 - Formal administrative or judicial appeal

Exhibit A to
Enclosure (3)

DEFINITIONS

1. Abuse. Improper use of authority or government resources in the normal conduct of operations. It includes, but is not limited to, conflicts of interest not involving prosecutable fraud, misuse of government property and substantial violations of program directives, or poor management practices that seriously affect program accomplishment.
2. Agreed-Upon Recommendation. A recommendation for DON management action that is set forth in the audit report and that is approved explicitly by DON management and incorporated into program plans.
3. Audit. An official examination or verification by an AO of an activity's financial records, programs or operations. The review is performed or supervised by professionally qualified auditors in conformance with GAO and DoDIG auditing standards.
4. Audit Decision. The point at which the AO and DON management agree on actions to be taken on reported audit findings and recommendations; or, if they disagree, the point at which the audit decision authority decides the matter to be decided.
5. Audit Decision Authority. The command official responsible for deciding disagreements between DON management and auditors over findings, recommendations, or estimates of monetary benefits. The UNSECNAV is the audit decision authority for NAVAUDSVC audits. Commanding officers are the audit decision authorities for local audit reports.
6. Audit Facilitator. A non-decision making or intermediary role performed by NAVINSGEN when a dispute exists between the AO and DON management on an audit recommendation that has been elevated to UNSECNAV for decision.
7. Audit Follow-up. The process by which management acts responsibly to decide problems documented in audit findings and to adequately complete and report on open audit recommendations. Audit follow-up officially begins when the audit report is published. Although audit follow-up officially begins when the audit report is published, DON management should begin implementing any agreed-upon recommendation promptly, if possible, before the report is published. If the auditors and DON management disagree, an audit decision process may be

required before the audit follow-up process begins. Audit follow-up also includes verifying and reporting on DON management's actions to ensure agreed-upon corrective actions are actually taken within agreed-upon time frames and any realized monetary benefits are documented. Audit follow-up officially ends on the date of explicit written confirmation that required DON management action is completed or, if appropriate, when all on-site verification is completed.

8. Audit Organization (AO). An AO is the agency or activity conducting the audit. External AOs' are: GAO, the DoDIG Deputy Inspector General for Auditing (AIG(A)) and DCAA. NAVAUDSVC is the primary DON internal AO. Other DON AOs include MCNAFAS, NEXCOM and commands having local audit staffs.

9. Audit Oversight. The monitoring of actions taken by focal points in administering and managing the audit process to ensure focal point efficiency and effectiveness.

10. Audit Process. Involves all phases and aspects of an audit from announcement to completion and on-site verification of the actual implementation of the specific audit recommendation. (Is a responsibility of DON management, the audit agency and the responsible focal point).

11. Audit Report. The results of an audit published by an AO containing findings and recommendations. Some audit reports may be informational and contain no recommendations.

12. Corrective Actions. Measures taken to implement agreed-upon and decided audit findings and recommendations.

13. Closed Audit. Audit for which necessary management action on findings, recommendations, and claimed monetary benefits set forth in the final audit report is agreed-upon or decided; and corrective action has been completed, and documented.

14. Decided. An agreement has been reached between DON management and auditors on previously undecided findings, recommendations, and monetary benefits, or a senior official has made a decision settling the disagreement.

15. Deficiency. Any instance reported by auditors concerning non-compliance with requirements of law and directives; unauthorized damage, destruction, or reduction in value of

Enclosure (4)

government resources; unreasonable consumption, under-use, inefficient or ineffective use, or unauthorized disposition of government resources; and incurrence of unnecessary costs.

16. DON Audit Follow-up Program. The DON Audit Follow-up Program includes audit decision and audit follow-up of findings and recommendations in audit reports covering DON and issued by: (1) GAO; (2) DoDIG; (3) DCAA; (4) NAVAUDSVC; (5) MCNAFAS; (6) NEXCOM; and (7) local AOs.

17. Draft Audit Report. An AO's initial findings and recommendations that are generally addressed to the audited activity and normally require a DON management response for incorporation into the final audit report. A draft audit report is not subject to follow-up actions under this instruction. However, the DON management response or concurrence to draft recommendations may lead to audit follow-up requirements.

18. Final Action. The completion of all actions that DON management has concluded, in its DON management decision, are necessary with respect to the findings and recommendations included in an audit report. If DON management concludes no action is necessary, final action occurs when a DON management decision has been made.

19. Finding. A statement made by an AO on the basis of information developed about an organization, program, activity, function, condition, or other matters which were analyzed or evaluated.

20. Focal Point. The entity within the command structure charged with audit facilitation and follow-up responsibilities.

21. Fraud. For this instruction, includes theft or embezzlement, bribery, gratuities, conflicts of interest, and violations of antitrust laws, and false statements or false claims in the following areas: pay and allowances; procurement; property disposal; commissary or subsistence; non-appropriated funds; Civilian Health and Medical Program of the Uniformed Services; Foreign Military Sales; and personnel matters. Also, included is conspiracy to:

- a. file false, fictitious, and fraudulent claims;

Enclosure (4)

b. defraud the United States and any of its departments or agencies of: (1) its money and property; or (2) the honest implementation and enforcement of the various statutes and regulations, defining among other things the acquisition process; and

c. violate any of the numerous specific statutes in the United States Code prohibiting and making unlawful acts identified in the preceding sentence.

22. Funds Put to Better Use. The financial impact of a recommendation by the auditors that funds could be used more efficiently if management of an establishment took actions to implement and complete the recommendation, including:

- a. reductions in outlays;
- b. de-obligation of funds from programs or operations;
- c. withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds;
- d. cost not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee;
- e. avoidance of unnecessary expenditures noted in pre-award reviews of contracts or grant agreements; or
- f. any other savings which are specifically identified.

Such financial impact may be calculated on the basis of statistical projections, where appropriate.

23. Government Resources. Any and all property, real, personal, or intangible owned, leased, or controlled by the Government of the United States.

24. Internal Audit. Internal audit is a staff function performed by professionally qualified auditors employed by an activity's AO, which organization is independent of the activities, programs, or operations being audited. For this instruction, includes audits conducted by the NAVAUDSVC, MCNAFAS, NEXCOM, and all DON local AOs.

25. Local Audits. Audits performed by the commanding officer's local audit staff. This command audit function must perform audits following the policies and standards of the Auditor General of the Navy (AUDGENAV). See NAVAUDSVC Local Audit Manual. Upon request, unless restricted by law, copies will be made available for public inspection under the Freedom of Information Act. For oversight purposes, local audit reports are subject to release to the AUDGENAV or other inspectors or investigators.

26. Management Decision. The evaluation by DON management of the findings, recommendations, and monetary benefits included in an audit report and the issuance of a final decision concerning its response, including actions concluded to be necessary.

27. Monetary Benefits. Funds put to better use or questioned costs. It may include collections, monetary savings, or potential cost avoidances projected upon management's commitment to implement recommendations for improvements in operations and systems.

28. On-site Verification. A visual review, including a visual review of documentation, to determine if agreed-upon audit follow-up action was taken and agreed-upon monetary benefits, if any, were realized.

29. Open. A recommendation, finding, monetary benefit or action for which agreement has been achieved at all levels, but for which action has not been completed.

30. Recommendation. Action proposed by an AO to remedy discrepancies or shortcomings as specified in the audit report findings.

31. Repeat Finding. The same condition and cause noted in a previous audit.

32. Significant Recommendation. A recommendation identifying monetary benefits of \$350 thousand or more for an Echelon One or Two command and \$100 thousand or more for an Echelon Three and below; a major systemic problem; a safety/health problem, or a repeat finding. Significant recommendations must be verified on-site within one year after action is completed.

33. Undecided. DON management has not yet commented on a DoD AOs' findings, recommendations, or estimated potential monetary benefits, or does not concur and the DoD AO does not agree with the DON management position. Also applies when DON management and the DoD AO are attempting to decide disagreements at lower levels, or the disagreement is being submitted to a senior official for decision.

34. Waste. Involves the extravagant, careless or needless expenditure of government funds, or the extravagant, careless, or needless consumption of government property.

SECNAVINST 5200.34E

7 Nov 2005

6

Enclosure (4)